Glass-Steagall in Italy

Fourth Bill Filed In Parliament

by Claudio Celani

July 3—A draft bill for a Glass-Steagall-like banking separation act has been introduced in the Italian Senate by Sen. Giuseppe Vacciano (Five-Star Movement/M5S), and signed by virtually the entire M5S faction (48 senators out of 50).

The website of the press spokesman for the M5S Senate faction announced the bill yesterday with a July 2 video statement by Vacciano, entitled: "Finally M5S: Go Forward to the New Glass-Steagall Act for Separating Commercial Banks from Investment Banks."

The video opens with a short introduction, explaining that the draft bill "wants to break an entanglement which had already been broken after the 1929 Great Depression, through the introduction in 1933, thanks to U.S. President Roosevelt, of the Glass-Steagall Act. The entanglement was re-created, under pressures from large investment banks, in 1999, by the Clinton Administration, leading to a new, major crisis worse than the one of the last century."

In the video, Vacciano announces that on the same day, he will file the draft bill. A Radiocor/*Il Sole 24 Ore* wire datelined July 2 partially covered the statement. "The bill," Vacciano explains in a release, "prescribes the separation between commercial and investment banks, an issue being discussed for a long time politically, but which nobody seems willing to really do something about. Now it is up to Senate President Pietro Grasso, to assign it to the Finance Committee, of which I am a member, to schedule it for discussion. I hope to find the largest possible support, since this is not a M5S problem, it is not a problem of any political party, but it is a problem of the entire nation. This situation," Vacciano concludes, "has led in Italy to a scandal we know very well: It is called Monte dei Paschi di Siena."

Sen. Giuseppe Vacciano has introduced a Glass-Steagall bill into the Italian Senate, the fourth such bill now in parliament.

The FDR Model

The text of the draft bill has an extensive introduction, with many parts identical to the text of the resolution voted up by the Tuscany Regional Council, which was obviously the template (see *EIR*, June 28, 2013). Vacciano, who is a regional official of the Bank of Italy central bank, has added sections of his own, including a review of all major "banking reform" proposals in Europe and in the U.S.A.: Liikanen, the German and French bills, the U.K.'s Vickers' ringfencing, and, of course, Dodd-Frank.

The historical background is provided: "Separation of banking activities, established in the United States by the famous Glass-Steagall Act introduced under the Presidency of Franklin Delano Roosevelt in 1933, which ended financial excesses at the origin of the Great Depression, contained the financial excesses and immoral gambling of the bankers, whose greed and thirst for money caused the most serious, severe, and generalized crisis since the 1929 Great Depression, when the economy was not yet globalized. The abrogation of the Glass-Steagall standard, effected by the Clinton administration under pressure by investment banks, has been the main cause for the financial crises and disasters which have produced victims among families and enterprises, including in Italy. Since the bursting of the derivatives bubble—derivatives are hyper-speculative instruments, completely disconnected from productive investments, which move resources away from the real economy to a real global casino—the threat of a bank failure has led governments and central banks to a series of bailouts paid for by the collectivity. . . .

"Among the first measures to face the 1929 financial crisis, was the introduction of a clear separation between traditional banking and investment banking. The two activities could not be practiced by the same agency. The aim was to avoid a situation in which a failure of the speculative part (investment banking), might provoke a default of the traditional 'commercial' part, where deposits and credits to the real economy are located (mortgage loans, credits for productive firms)."

Movisol

The LaRouche Movement in Italy (Movisol) is organzing for Glass-Steagall banking separation, and with its partners in the Committee of National Liberation, has put forward a model bill which has become the template for legislation introduced in parliament.

Ending the Myth of Easy Money

Monte dei Paschi (MPS) is given as an example, to make the case for banking separation today. "First the government takes a financial X-ray of MPS to identify speculative and commercial activities; then it divides the bank into two parts. Eventually, the commercial part gets government money to guarantee deposits and cover loans. The other part is bankrupted in a controlled way (a large part of the debt shall be 'erased').

"Italy can initiate a new phase by going back to the beginning, in order to avoid the immoral gambling of the bankers, and to re-establish a real credit function, aimed at collecting savings and investing them prudently, as a principal driver for the economy. Separation between ordinary (commercial) banks and (investment) banks operating on speculative markets not only avoids having families, firms, and ordinary depositors foot the bill for the global speculative bubbles of greedy bankers, but it would function to pull the country out of the culture of easy earnings through gambling on the markets, a real collective blindness which has trapped legislators throughout the world into the myth of wealth without sacrifice, with the ruthless use of derivatives and creation of money from nothing. The real economy and hard-earned savings must not be allowed to be gobbled up by speculative finance; therefore, it is more than urgent to rebuild that Chinese Wall that separates investment banks and bankers who have made gains with depositors' and savers' money, from commercial banks lending to the real economy."

The text then explains that "with this measure, the government is mandated to implement rules aimed at establishing a separation between Commercial banks and Investment banks, according to the standards and the model of the Glass-Steagall Act, taking into account the need to emphasize a model of traditional, non-speculative banking, recognizing its specificity, and social and economic role."

The operational part consists of six articles, defining the two different kinds of banks, and specifying all the things that commercial banks cannot do or have.

Vacciano's bill is the fourth draft bill for a Glass-Steagall-like banking separation currently in the Italian Parliament. There is another in the Senate, introduced by former Economics Minister Giulio Tremonti, and two in the Chamber of Deputies, introduced by Davide Caparini (Lega Nord) and Marco Di Lello (PSI-PD).

There is a good chance that Senate President Pietro Grasso, a Democratic Party (PD) member who was elected thanks to M5S votes, will assign Vacciano's draft bill to the Finance Committee.